

Pacific Forest  
and Watershed  
Lands  
Stewardship  
Council

**FINANCIAL STATEMENTS AND  
SUPPLEMENTARY FINANCIAL  
INFORMATION WITH  
INDEPENDENT AUDITOR'S REPORT**

Years Ended  
December 31, 2015 and 2014

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LAUTZE & LAUTZE  
CPAs & FINANCIAL ADVISORS

## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
Pacific Forest and Watershed Lands  
Stewardship Council  
San Mateo, California

We have audited the accompanying financial statements of Pacific Forest and Watershed Lands Stewardship Council (a private foundation) which comprise the statements of financial position as of December 31, 2015 and 2014, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

To the Board of Directors  
Pacific Forest and Watershed Lands  
Stewardship Council

### **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Pacific Forest and Watershed Lands Stewardship Council as of December 31, 2015 and 2014, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### **Other Matter**

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The expense budget to actual analysis schedule on page 21 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.



San Jose, California  
June 8, 2016

**PACIFIC FOREST AND WATERSHED LANDS STEWARDSHIP COUNCIL**  
**STATEMENTS OF FINANCIAL POSITION**

December 31,

	2015	2014
<b>ASSETS</b>		
Cash and cash equivalents	\$ 4,152,486	\$ 1,712,825
Prepaid expenses	50,851	49,793
Accrued interest	27,788	94,884
Investments	45,432,338	52,153,711
Property and equipment, net	17,443	23,394
Total assets	\$ 49,680,906	\$ 54,034,607
 <b>LIABILITIES AND NET ASSETS</b>		
Liabilities:		
Accounts payable and accrued expenses	\$ 198,467	\$ 205,153
Grants payable	1,454,483	23,770
Total liabilities	1,652,950	228,923
Commitments		
Temporarily restricted net assets	48,027,956	53,805,684
Total liabilities and net assets	\$ 49,680,906	\$ 54,034,607

**PACIFIC FOREST AND WATERSHED LANDS STEWARDSHIP COUNCIL**  
**STATEMENT OF ACTIVITIES**  
Year Ended December 31, 2015

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Support and revenue:			
Net investment income	\$ -	\$ 262,319	\$ 262,319
Gain on disposal of property and equipment	-	1,295	1,295
	<u>-</u>	<u>263,614</u>	<u>263,614</u>
Net assets released from restrictions	6,041,342	(6,041,342)	-
Total support and revenue	<u>6,041,342</u>	<u>(5,777,728)</u>	<u>263,614</u>
Expenses:			
Program:			
Land Conservation	6,029,961	-	6,029,961
Youth Investment	11,381	-	11,381
Total expenses	<u>6,041,342</u>	<u>-</u>	<u>6,041,342</u>
Change in net assets	-	(5,777,728)	(5,777,728)
Net assets:			
Beginning of year	<u>-</u>	<u>53,805,684</u>	<u>53,805,684</u>
End of year	<u>\$ -</u>	<u>\$ 48,027,956</u>	<u>\$ 48,027,956</u>

See notes to financial statements.

**PACIFIC FOREST AND WATERSHED LANDS STEWARDSHIP COUNCIL**  
**STATEMENT OF ACTIVITIES**  
Year Ended December 31, 2014

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Support and revenue:			
Net investment income	\$ -	\$ 375,579	\$ 375,579
Loss on disposal of property and equipment	-	(1,987)	(1,987)
	-	373,592	373,592
Net assets released from restrictions	<u>3,035,355</u>	<u>(3,035,355)</u>	<u>-</u>
Total support and revenue	<u>3,035,355</u>	<u>(2,661,763)</u>	<u>373,592</u>
Expenses:			
Program:			
Land Conservation	3,031,234	-	3,031,234
Youth Investment	<u>4,121</u>	<u>-</u>	<u>4,121</u>
Total expenses	<u>3,035,355</u>	<u>-</u>	<u>3,035,355</u>
Change in net assets	-	(2,661,763)	(2,661,763)
Net assets:			
Beginning of year	<u>-</u>	<u>56,467,447</u>	<u>56,467,447</u>
End of year	<u>\$ -</u>	<u>\$ 53,805,684</u>	<u>\$ 53,805,684</u>

See notes to financial statements.

**PACIFIC FOREST AND WATERSHED LANDS STEWARDSHIP COUNCIL**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
Year Ended December 31, 2015

	<u>Land Conservation</u>	<u>Youth Investment</u>	<u>Management and General</u>	<u>Total</u>
Expenses:				
Grant awards	\$ 3,784,839	\$ -	\$ -	\$ 3,784,839
Salaries, wages, and benefits	927,571	8,726	435,721	1,372,018
Consultants and professional services	479,145	280	14,412	493,837
Rent and facilities	48,379	1,586	29,344	79,309
Investment fees	53,522	-	-	53,522
Insurance	32,282	314	15,347	47,943
Office supplies and expense	33,763	165	9,956	43,884
Accounting	-	-	37,761	37,761
Conferences, meetings, and training	26,049	70	8,638	34,757
Land transaction costs	26,426	-	-	26,426
Travel and entertainment	21,411	40	2,660	24,111
Legal	15,114	-	-	15,114
Excise taxes	11,024	-	-	11,024
Depreciation	6,318	190	3,506	10,014
Newsletters and public notices	5,756	10	1,017	6,783
	<u>5,471,599</u>	<u>11,381</u>	<u>558,362</u>	<u>6,041,342</u>
Allocation of management and general expenses	<u>558,362</u>	<u>-</u>	<u>(558,362)</u>	<u>-</u>
Total expenses	<u>\$ 6,029,961</u>	<u>\$ 11,381</u>	<u>\$ -</u>	<u>\$ 6,041,342</u>

See notes to financial statements.



**PACIFIC FOREST AND WATERSHED LANDS STEWARDSHIP COUNCIL**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
Year Ended December 31, 2014

	<u>Land Conservation</u>	<u>Youth Investment</u>	<u>Management and General</u>	<u>Total</u>
Expenses:				
Grant awards	\$ 637,265	\$ (6,995)	\$ -	\$ 630,270
Salaries, wages, and benefits	899,737	6,534	523,815	1,430,086
Consultants and professional services	493,517	655	18,807	512,979
Rent and facilities	58,609	1,982	28,768	89,359
Investment fees	81,333	-	145	81,478
Insurance	28,591	629	16,840	46,060
Office supplies and expense	30,609	369	14,652	45,630
Accounting	-	-	36,905	36,905
Conferences, meetings, and training	19,813	518	19,601	39,932
Land transaction costs	21,182	-	-	21,182
Travel and entertainment	29,652	133	4,832	34,617
Legal	35,551	-	6,286	41,837
Excise taxes	(2,448)	-	135	(2,313)
Depreciation	3,893	210	11,856	15,959
Newsletters and public notices	9,125	86	2,163	11,374
	<u>2,346,429</u>	<u>4,121</u>	<u>684,805</u>	<u>3,035,355</u>
Allocation of management and general expenses	<u>684,805</u>	<u>-</u>	<u>(684,805)</u>	<u>-</u>
Total expenses	<u>\$ 3,031,234</u>	<u>\$ 4,121</u>	<u>\$ -</u>	<u>\$ 3,035,355</u>

See notes to financial statements.

**PACIFIC FOREST AND WATERSHED LANDS STEWARDSHIP COUNCIL**  
**STATEMENTS OF CASH FLOWS**  
Years Ended December 31,

	2015	2014
Cash flows from operating activities:		
Change in net assets	\$ (5,777,728)	\$ (2,661,763)
Adjustments to reconcile change in net assets to net cash used by operating activities:		
Net realized and unrealized losses on investments	138,615	45,247
Depreciation	10,014	15,959
Donated property and equipment	1,295	1,629
Loss (gain) on disposal of property and equipment	(1,295)	1,987
(Increase) decrease in assets:		
Prepaid expenses	(1,058)	(2,398)
Accrued interest	67,096	15,635
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	(6,686)	39,102
Grants payable	1,430,713	23,770
	(4,139,034)	(2,520,832)
Net cash used by operating activities		
Cash flows from investing activities:		
Proceeds from sale of investments	32,947,972	16,275,852
Purchase of investments	(26,365,214)	(15,122,480)
Purchase of property and equipment	(4,063)	(14,855)
	6,578,695	1,138,517
Net cash provided by investing activities		
Net increase (decrease) in cash and cash equivalents	2,439,661	(1,382,315)
Cash and cash equivalents:		
Beginning of year	1,712,825	3,095,140
End of year	\$ 4,152,486	\$ 1,712,825

**PACIFIC FOREST AND WATERSHED LANDS STEWARDSHIP COUNCIL**  
**NOTES TO FINANCIAL STATEMENTS**  
Years Ended December 31, 2015 and 2014

**1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Purpose and Organization**

The Pacific Forest and Watershed Lands Stewardship Council (the Stewardship Council) is a private foundation that was established in 2004 as the result of a Settlement Agreement between Pacific Gas and Electric Company (PG&E) and the California Public Utilities Commission (CPUC). Its mission is to protect and enhance watershed lands and uses, and invest in efforts to improve the lives of young Californians through connections with the outdoors. The Stewardship Council brings together the expertise of leading conservation, natural resource management, business, and public officials to undertake a historic conservation effort for California. A unique and collaborative endeavor, the Stewardship Council's Board of Directors unites a broad range of interests to guide the development and execution of a Land Conservation Program and a Youth Investment Program to benefit current and future generations of Californians.

The Stewardship Council's mission statement is as follows:

The Stewardship Council protects and enhances watershed lands and uses, and invests in efforts to improve the lives of young Californians through connections with the outdoors.

To support the Land Conservation Program, the Settlement Agreement required PG&E to provide the Stewardship Council with \$70 million to be paid in equal installments over ten years starting in 2004. To support the Youth Investment Program, the CPUC required PG&E to provide the Stewardship Council with \$30 million to be paid in equal installments over ten years starting in 2004. In January 2013, PG&E made its tenth and final installment payment of \$10 million to the Stewardship Council.

As part of its commitment to support efforts to invest in parks and youth programs in both urban and rural areas of Northern and Central California, the Stewardship Council, through its Youth Investment Program, initially expended approximately \$2 million in youth grants annually. Through Stewardship Council grants to Youth Outside (formerly Foundation for Youth Investment), the Stewardship Council has sought to enable the creation of a permanent program to connect underserved youth to the outdoors (Note 8).

The Stewardship Council is also tasked with ensuring the permanent protection of over 140,000 acres of land for the benefit of the citizens of California. In its work to fulfill this objective, the Stewardship Council has developed a Land Conservation Plan that recommends how the beneficial public uses of this land can best be conserved. This Land Conservation Plan will serve as framework to guide the Stewardship Council as it identifies future land stewards to accept fee title of the lands and conservation easements to ensure their protection into perpetuity.

**Basis of Accounting**

The Stewardship Council prepares its financial statements in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP), which involves the application of accrual accounting; consequently, revenues and gains are recognized when earned, and expenses and losses are recognized when incurred.

**PACIFIC FOREST AND WATERSHED LANDS STEWARDSHIP COUNCIL**  
**NOTES TO FINANCIAL STATEMENTS**  
Years Ended December 31, 2015 and 2014

**1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Basis of Presentation**

U.S. GAAP requires that the Stewardship Council report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted. Accordingly, the net assets of the Stewardship Council are classified and reported as described below:

*Unrestricted:* Those net assets and activities which represent the portion of expendable funds that are available to support the Stewardship Council's operations. A portion of these net assets may be designated by the Board of Directors for specific purposes.

*Temporarily Restricted:* Those net assets and activities which are donor-restricted for (a) support of specific operating activities; (b) investment for a specified term; (c) use in a specified future period; or (d) acquisition of long-lived assets.

*Permanently Restricted:* Those net assets and activities which are permanently donor-restricted for holdings of (a) assets donated with stipulations that they be used for a specified purpose, be preserved, and not be sold; or (b) assets donated with stipulations that they be invested to provide a permanent source of income.

The Stewardship Council does not presently have any assets meeting the definition of unrestricted or permanently restricted.

**Estimates**

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Cash and Cash Equivalents**

Cash consists of funds held in a commercial account for operating expenses. The Stewardship Council considers all highly liquid investments with an original maturity of three months or less, when purchased, to be cash equivalents.

**Investments**

The Stewardship Council reports investments in marketable securities with readily determinable fair values and all investments in debt securities at their fair values. The fair values of marketable securities are determined based on market quotations. Debt securities are carried at estimated fair value as provided by the investment managers. Realized gains and losses on the sale of securities are determined on the specific-identification method. Income earned, and realized and unrealized gains and losses on investment transactions are included as income in the year earned.

**PACIFIC FOREST AND WATERSHED LANDS STEWARDSHIP COUNCIL**  
**NOTES TO FINANCIAL STATEMENTS**  
Years Ended December 31, 2015 and 2014

**1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Investments (Continued)**

The Stewardship Council's Fiduciary Committee is responsible for establishing investment criteria and overseeing the Stewardship Council's investments, with board approval of significant changes in the investment policy.

**Property and Equipment**

The Stewardship Council capitalizes acquisitions of property and equipment with a cost or value in excess of \$1,000 and with an estimated useful life beyond one year. Purchased assets are recorded at cost; donated assets are recorded at estimated fair value or appraised value at the date of acquisition. Depreciation is calculated using the straight-line method based upon estimated useful lives ranging from 3 to 7 years. Leasehold improvements are amortized over the shorter of the asset life or the lease term, including extensions. Maintenance and repairs are charged to expense as incurred; major renewals and betterments are capitalized. The cost and accumulated depreciation of assets sold or retired are removed from the respective accounts and any gain or loss is reflected in the statement of activities.

**Income Taxes**

The Stewardship Council has been determined by the Internal Revenue Service to be a tax-exempt private foundation within the meaning of §501(c)(3) of the Internal Revenue Code (IRC). Generally, private foundations are liable for an excise tax of 2% (1% if minimum payout requirements prescribed by the IRC are met) on net investment income, excluding unrealized gains, as defined. An organization qualifying as a private foundation must distribute, in the year received or in the year following receipt, its minimum investment return of 5% of the average market value of its aggregate noncharitable assets or become subject to additional taxes up to the amount of any undistributed balance.

The Stewardship Council satisfies the 5% distribution requirement through grants to other non-profit organizations and operations of the Youth Investment and Land Conservation programs. For the year ended December 31, 2015, the Stewardship Council paid excise tax of \$8,491. For the year ended December 31, 2014, the Stewardship Council did not pay any excise tax.

The Stewardship Council has adopted the accounting standard on accounting for uncertainty in income taxes, which prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken, or expected to be taken, in a tax return and requires the affirmative evaluation that is more likely than not, based on the technical merits of a tax position, that an organization is entitled to economic benefits resulting from tax positions taken in income tax returns. For tax-exempt entities, favorable tax status itself is deemed to be an uncertainty, as events could potentially occur to jeopardize their tax-exempt status. If a tax position does not meet the more likely than not recognition threshold, the benefit of that position is not recognized in the financial statements.

**PACIFIC FOREST AND WATERSHED LANDS STEWARDSHIP COUNCIL**  
**NOTES TO FINANCIAL STATEMENTS**  
Years Ended December 31, 2015 and 2014

**1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Income Taxes (Continued)**

The Stewardship Council's evaluation on December 31, 2015 revealed no tax positions that would have a material impact on the financial statements. The 2012 through 2015 tax years remain subject to examination by the Internal Revenue Service. In addition, the 2011 through 2015 tax years remain subject to examination by the California Franchise Tax Board. The Stewardship Council does not believe that any reasonably possible changes will occur within the next twelve months that will have a material impact on the financial statements.

**Concentrations of Risk**

Financial instruments which potentially subject the Stewardship Council to concentrations of credit risk consist principally of cash and cash equivalents, and investments. The Stewardship Council maintains its cash in various bank deposit and investment accounts which, at times, may exceed federally insured limits. The Stewardship Council has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash.

The Stewardship Council attempts to limit its credit risk associated with cash equivalents and investments by utilizing outside investment managers to place the Stewardship Council's investments with highly rated corporate and financial institutions. Furthermore, the Stewardship Council invests primarily in fixed income securities which are exposed to various risks, such as interest rate, market, and credit risk. Due to the level of risk associated with certain investments, it is likely and probable that changes in the values of investments will occur in the near term and that such changes could materially affect the amounts reported. The Stewardship Council's investments are limited in the amount of credit exposure to any one issuer and management believes that the Stewardship Council is not exposed to any significant credit risk related to cash equivalents and investments.

**Functional Allocation of Expenses**

The Stewardship Council allocates all identifiable expenses directly to the Youth Investment and Land Conservation Programs whenever possible. Certain expenses that cannot be easily identified as benefiting either program are initially classified as management and general expenses. At the end of each fiscal year, these expenses are allocated to the Youth Investment and Land Conservation Programs. Until 2013, the allocation to each of the programs was based on the allocation of the grant income pursuant to the original grant agreement. Due to the transfer of substantially all of the net assets of the Youth Investment Program to Youth Outside in August 2013 and the termination of the intercompany agreement September 30, 2013 (Note 8), effective October 1, 2013 expenses are allocated primarily to the Land Conservation Program.

**PACIFIC FOREST AND WATERSHED LANDS STEWARDSHIP COUNCIL**  
**NOTES TO FINANCIAL STATEMENTS**  
Years Ended December 31, 2015 and 2014

**2. FAIR VALUE MEASUREMENTS**

The Stewardship Council's financial assets carried at fair value have been classified, for disclosure purposes, based on a hierarchy that gives the highest ranking to fair values determined using unadjusted quoted prices in active markets for identical assets and liabilities (Level 1) and the lowest ranking to fair values determined using methodologies and models with unobservable inputs (Level 3). An asset's or a liability's classification is based on the lowest level input that is significant to its measurement. For example, a Level 3 fair value measurement may include inputs that are both observable (Levels 1 and 2) and unobservable (Level 3). The levels of the fair value hierarchy are as follows:

*Level 1* – Values are unadjusted quoted prices for identical assets and liabilities in active markets accessible at the measurement date.

*Level 2* – Inputs include quoted prices for similar assets or liabilities in active markets, quoted prices from those willing to trade in markets that are not active, or other inputs that are observable or can be corroborated by market data for the term of the instrument. Such inputs include market interest rates and volatilities and spreads and yield curves.

*Level 3* – Certain inputs are unobservable (supported by little or no market activity) and significant to the fair value measurement. Unobservable inputs reflect the Stewardship Council's best estimate of what hypothetical market participants would use to determine a transaction price for the asset or liability at the reporting date.

The following is a description of the valuation methodologies used for assets measured at fair value.

*Bond Mutual Funds:* Bond mutual funds are valued at the closing price reported in active markets and are generally categorized in Level 1 of the fair value hierarchy.

*Corporate Obligations and Commercial Paper:* The fair value of corporate bonds and commercial paper is estimated using recently executed transactions, market price quotations (where observable), bond spreads or credit default swap spreads. The spread data used are for the same maturity as the bond. If the spread data does not reference the issuer, then data that references a comparable issuer is used. When observable price quotations are not available, fair value is determined based on cash flow models with yield curves, bond, or single-name credit default swap spreads and recovery rates based on collateral values as key inputs. The fair value of commercial paper approximates its book value because of its short-term nature. Corporate bonds and commercial paper are generally categorized in Level 2 of the fair value hierarchy. In instances where significant inputs are unobservable, they are categorized in Level 3 of the hierarchy.

*Government Obligations:* The fair value of sovereign government bonds is generally based on quoted prices in active markets. When quoted prices are not available, fair value is determined based on a valuation model that uses inputs that include interest-rate yield curves, cross-currency-basis index spreads, and country credit spreads similar to the bond in terms of issuer, maturity, and seniority. Sovereign government bonds are generally categorized in Levels 1 or 2 of the fair value hierarchy.

*Municipal Bonds:* The fair value of municipal bonds is estimated using recently executed transactions, market price quotations and pricing models that factor in, where applicable, interest rates, bond or credit default swap spreads and volatility. These bonds are generally categorized in Level 2 of the fair value hierarchy.

**PACIFIC FOREST AND WATERSHED LANDS STEWARDSHIP COUNCIL**  
**NOTES TO FINANCIAL STATEMENTS**  
Years Ended December 31, 2015 and 2014

**2. FAIR VALUE MEASUREMENTS (CONTINUED)**

*Asset-Backed Securities (ABS):* ABS may be valued based on external price/spread data. When position-specific external price data are not observable, the valuation is based on prices of comparable securities. Included in this category are certain interest-only securities, which, in the absence of market prices, are valued as a function of observable whole-bond prices and cash flow values of principal-only bonds using current market assumptions at the measurement date. ABS are categorized in Level 2 of the fair value hierarchy when external pricing data is observable and in Level 3 when external pricing data is unobservable.

*Certificates of Deposit:* The fair value of certificates of deposit is estimated using recently executed transactions or market price quotations (where observable). These securities are classified within Level 2 of the fair value hierarchy.

The carrying amounts of accounts payable approximate fair value because of the short maturity of these instruments.

The following tables provide information as of December 31, about the Stewardship Council's financial assets measured at fair value on a recurring basis:

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
2015:				
Domestic:				
Bond mutual funds	\$ 37,740,226	\$ 37,740,226	\$ -	\$ -
Corporate obligations	3,301,767	-	3,301,767	-
Government obligations	2,980,560	-	2,980,560	-
Municipal bonds	475,000	-	475,000	-
Asset-backed securities	9,679	-	9,679	-
International:				
Corporate obligations	925,106	-	925,106	-
	<u>\$ 45,432,338</u>	<u>\$ 37,740,226</u>	<u>\$ 7,692,112</u>	<u>\$ -</u>



**PACIFIC FOREST AND WATERSHED LANDS STEWARDSHIP COUNCIL**  
**NOTES TO FINANCIAL STATEMENTS**  
Years Ended December 31, 2015 and 2014

**2. FAIR VALUE MEASUREMENTS (CONTINUED)**

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
2014:				
Domestic:				
Bond mutual funds	\$ 25,337,436	\$ 25,337,436	\$ -	\$ -
Corporate obligations	8,444,249	-	8,444,249	-
Government obligations	6,053,163	-	6,053,163	-
Municipal bonds	2,431,511	-	2,431,511	-
Asset-backed securities	2,261,176	-	2,261,176	-
International:				
Corporate obligations	5,701,300	-	5,701,300	-
Commercial paper	1,399,600	-	1,399,600	-
Certificates of deposit	525,276	-	525,276	-
	<u>\$ 52,153,711</u>	<u>\$ 25,337,436</u>	<u>\$ 26,816,275</u>	<u>\$ -</u>

The Stewardship Council's policy is to recognize transfers in and transfers out as of the actual date of the event or change in circumstance that caused the transfer. The Stewardship Council had no transfers into or out of levels of the fair value hierarchy during the years ended December 31, 2015 and 2014.

**PACIFIC FOREST AND WATERSHED LANDS STEWARDSHIP COUNCIL**  
**NOTES TO FINANCIAL STATEMENTS**  
Years Ended December 31, 2015 and 2014

**3. INVESTMENTS**

Investments consisted of the following at December 31:

	2015		2014	
	Cost	Fair Value	Cost	Fair Value
<b>Domestic:</b>				
Bond mutual funds	\$ 37,865,998	\$ 37,740,226	\$ 25,349,203	\$ 25,337,436
Corporate obligations	3,300,465	3,301,767	8,437,375	8,444,249
Government obligations	2,998,852	2,980,560	6,046,491	6,053,163
Municipal bonds	475,000	475,000	2,426,063	2,431,511
Asset-backed securities	9,681	9,679	2,262,928	2,261,176
Commercial paper	-	-	-	-
<b>International:</b>				
Corporate obligations	924,954	925,106	5,691,300	5,701,300
Commercial paper	-	-	1,399,123	1,399,600
Certificates of deposit	-	-	525,000	525,276
	<u>\$ 45,574,950</u>	<u>\$ 45,432,338</u>	<u>\$ 52,137,483</u>	<u>\$ 52,153,711</u>

Net investment income consisted of the following for the years ended December 31:

	2015	2014
Interest income	\$ 400,934	\$ 420,826
Net realized and unrealized losses on investments	<u>(138,615)</u>	<u>(45,247)</u>
	<u>\$ 262,319</u>	<u>\$ 375,579</u>

**PACIFIC FOREST AND WATERSHED LANDS STEWARDSHIP COUNCIL**  
**NOTES TO FINANCIAL STATEMENTS**  
Years Ended December 31, 2015 and 2014

**4. PROPERTY AND EQUIPMENT**

Property and equipment consisted of the following at December 31:

	<u>2015</u>	<u>2014</u>
Office equipment	\$ 117,337	\$ 122,179
Furniture and fixtures	49,968	49,968
Leasehold improvements	<u>7,178</u>	<u>7,178</u>
	174,483	179,325
Less accumulated depreciation	<u>(157,040)</u>	<u>(155,931)</u>
	<u>\$ 17,443</u>	<u>\$ 23,394</u>

**5. TEMPORARILY RESTRICTED NET ASSETS**

Temporarily restricted net assets at December 31, may be expended for:

	<u>2015</u>	<u>2014</u>
Assets, primarily cash and cash equivalents and investments, restricted for project support:		
Land Conservation Program	\$ 47,797,237	\$ 53,563,627
Youth Investment Program	<u>230,719</u>	<u>242,057</u>
	<u>\$ 48,027,956</u>	<u>\$ 53,805,684</u>

**6. NET ASSETS RELEASED FROM RESTRICTIONS**

Net assets were released from restrictions by incurring expenses satisfying the restricted purposes or by the occurrence of other events specified by the grantor during the years ended December 31, as follows:

	<u>2015</u>	<u>2014</u>
Land Conservation Program	\$ 6,029,961	\$ 3,031,234
Youth Investment Program	<u>11,381</u>	<u>4,121</u>
	<u>\$ 6,041,342</u>	<u>\$ 3,035,355</u>

**PACIFIC FOREST AND WATERSHED LANDS STEWARDSHIP COUNCIL**  
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**7. RETIREMENT PLAN**

The Stewardship Council has contracted with a Professional Employer Organization (PEO) to outsource its human resource administration and compliance, which includes an IRC §401(k) Plan (the Plan). The Plan covers all employees with 1,000 hours of service and who have reached the age of twenty-one. Under the safe harbor provision, the Stewardship Council will match 100% of the employee's contributions up to 3% of compensation per pay period and an additional 50% of the amounts of contributions that exceed 3% for such payroll period but that do not exceed 5% of the employee's payroll for the period. For the years ended December 31, 2015 and 2014, total employer contributions made to the Plan were \$40,946 and \$43,756, respectively.

**8. RELATED PARTY TRANSACTIONS**

Certain members of the Board of Directors and members of its advisory committees are also employees of other IRC §501(c)(3) organizations or public agencies to which the Stewardship Council has awarded grants and may award grants to in the future. In these circumstances, the Stewardship Council awards grants pursuant to its conflict of interest policy.

**Youth Outside**

In 2010, the Stewardship Council entered into an intercompany agreement with Youth Outside, a separate IRC §501(c)(3) organization, whose charitable purpose is to provide greater resources to connect children, youth, and young adults to nature, parks, open spaces, and the outdoors. As of December 31, 2015 and 2014, one Youth Outside director was also serving as a director on the Stewardship Council's Board of Directors.

On August 1, 2013, Youth Outside and the Stewardship Council executed a \$10.76 million grant agreement (the 2013 *Major Grant Agreement*) to enable Youth Outside to build a permanent program to connect underserved youth to the outdoors. With the transfer of grant funds to Youth Outside in August 2013, Youth Outside then became responsible for paying its own costs of operation.

Under the terms of the 2013 *Major Grant Agreement*, the Stewardship Council has the right to fill one seat on the Youth Outside board of directors until Youth Outside has expended all the grant funds provided by the Stewardship Council.

**9. COMMITMENTS**

On April 24, 2015, an operating lease for the San Mateo office, originally executed in 2013, was extended through December 2017 with future monthly base rent payments commencing at \$6,837.

On May 9, 2016, the Stewardship Council entered into an operating lease for office space in Roseville for the period July 1, 2016 through August 31, 2019. Monthly base payments commence at \$3,239; in addition the Stewardship Council is liable for a proportion of operating costs and property taxes.

**PACIFIC FOREST AND WATERSHED LANDS STEWARDSHIP COUNCIL**  
**NOTES TO FINANCIAL STATEMENTS**  
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**9. COMMITMENTS (CONTINUED)**

The Stewardship Council's future minimum lease commitments for office space for the years ending December 31 is as follows:

2016	\$ 95,619
2017	124,609
2018	40,661
2019	<u>27,705</u>
	<u>\$ 288,594</u>

For the years ended December 31, 2015 and 2014, rent expense amounted to \$79,309 and \$89,359, respectively.

**10. SUBSEQUENT EVENTS**

The Stewardship Council has evaluated all subsequent events through June 8, 2016, the date the financial statements were available to be issued.

**PACIFIC FOREST AND WATERSHED LANDS STEWARDSHIP COUNCIL**

**SUPPLEMENTARY FINANCIAL INFORMATION**

Year Ended December 31, 2015

**PACIFIC FOREST AND WATERSHED LANDS STEWARDSHIP COUNCIL**  
**EXPENSE BUDGET TO ACTUAL ANALYSIS SCHEDULE**  
Year Ended December 31, 2015

	Actual	Budget	Under / (Over) Budget
Expenses:			
Grant awards	\$ 3,784,839	\$ 7,673,200	\$ 3,888,361
Salaries, wages, and benefits	1,372,018	1,498,977	126,959
Consultants and professional services	493,837	1,348,198	854,361
Rent and facilities	79,309	82,068	2,759
Investment fees	53,522	82,920	29,398
Insurance	47,943	48,222	279
Office supplies and expense	43,884	58,450	14,566
Accounting	37,761	46,200	8,439
Conferences, meetings, and training	34,757	67,599	32,842
Land transaction costs	26,426	11,300	(15,126)
Travel and entertainment	24,111	42,450	18,339
Legal	15,114	110,000	94,886
Excise taxes	11,024	-	(11,024)
Depreciation	10,014	-	(10,014)
Newsletters and public notices	6,783	57,800	51,017
Total expenses	<u>\$ 6,041,342</u>	<u>\$ 11,127,384</u>	<u>\$ 5,086,042</u>